

O N T A R I O
S E C U R I T I E S
C O M M I S S I O N



A N N U A L
R E P O R T

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The following acronyms are intended to make the report more readable:

BCSC	British Columbia Securities Commission	IOSCO	International Organization of Securities Commissions
CFA	Commodity Futures Act	MFI	Ministry of Financial Institutions
CFAB	Commodity Futures Advisory Board	NCF	National Contingency Fund
CICA	Canadian Institute of Chartered Accountants	OSC	Ontario Securities Commission
COATS	Canadian Over-The-Counter Automated Trading System	OSFI	Office of the Superintendent of Financial Institutions
CMQ	Commission des valeurs mobilières du Québec	SA	Securities Act
CSA	Canadian Securities Administrators	SEC	Securities and Exchange Commission
FDAB	Financial Disclosure Advisory Board	SRO	Self-regulatory Organization
IDA	Investment Dealers Association	TCO	Trans Canada Options
		TFE	Toronto Futures Exchange
		TSE	Toronto Stock Exchange

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Honourable Robert F. Nixon
Minister of Financial Institutions
7 Queens' Park Crescent
Toronto, Ontario
M7A 2H6

Dear Mr. Minister,

I am pleased to present the 1988 Annual Report of the Ontario Securities Commission. The year was a turning point in the history of Ontario's capital markets, with significant restructuring of the industry being ushered in by the June 30, 1987 regulations. The opening of the Ontario securities market to foreign firms and domestic financial institutions has been very successful and assures Toronto's place as a major international financial centre.

The past year was also marked by two other major events, the effects of which are still being felt. The market crash of October 19 saw the TSE, in company with the world's major exchanges, suffer a severe fall of 621 points over a two day period. Overall, the TSE performed exceptionally well. Its operating systems functioned at close to full capacity and the member firms' clients were well served in a time of extreme pressure. The capital position of the member firms was closely monitored and capital was injected into a number of firms.

Following the October 19 market fall, was the international underwriting of British Petroleum, in which three major firms participated. Their commitment to purchase at pre-October 19 prices resulted in heavy losses for these firms. As a result the TSE and the IDA have examined the terms of underwritings, bank letters of credit, margin requirements and market out clauses. Both organizations have consulted with the OSC and we are hopeful that important lessons have been learned. Tighter rules now apply to underwriting commitments. Of course, there is never any guarantee against underwriting losses in a time of severe market turbulence.

The second major event was the failure of Osler Inc., which the OSC placed into receivership. This failure has, to date, cost the NCF some \$15 million. The Receiver is continuing its work, and the OPP continues to investigate the matter, along with our Enforcement Branch.

Thorough reviews of the audit process are being conducted by both the TSE and the NCF. We will await the result of those reviews before deciding what action to take. A stricter reporting system from both the SROs and the National Examiner under the NCF is essential.

The Osler failure has called into question the adequacy of the NCF as presently capitalized. We await a report from a special NCF committee to enquire into its structure and operation. Although the report has not yet been completed, it is clear that substantial change to the NCF will be required and, hopefully, put in place before the end of the current year.

With respect to internal OSC operations, it has been a year of consolidation. The new Capital Markets Branch is doing its best to cope with a myriad of problems that universal registration and a totally open market have brought. Many difficult problems remain to be resolved and we may not work out all the wrinkles for another two years.

The past year has seen four major firms become subsidiaries of Canadian banks, and a fifth has sold a 30 per cent interest to a U.S. bank. Bank involvement in the securities industry has meant the development of a close working relationship be-

tween the OSC and the OSFI. We entered into a Memorandum of Understanding with the OSFI with respect to the sharing of information and cooperation in regulatory matters and an excellent relationship has developed with the Superintendent, Michael MacKenzie.

After a major review, we are in the process of reorganizing the Enforcement Branch. We have repositioned the Branch so that it is primarily focused on major investigations and enforcement actions. We hope, through these changes, to have a more effective and efficient Enforcement Branch.

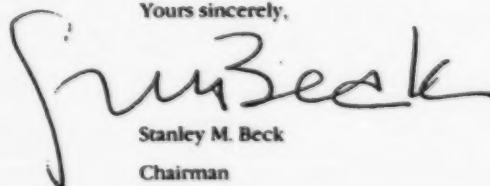
The way the Commission was able to take the initiative in the National Business Systems matter and see it through to a successful resolution was an excellent example of the capacity that we now have in the accounting area. That capacity was further demonstrated by the successful implementation of an internal policy for a selective review of financial statements of reporting issuers. To date we have reviewed approximately 200 companies and have sent comment letters to fully one-quarter of the companies reviewed. The financial statement review program will continue and we will be communicating with the National Standards Department of the accounting firms. The result we are aiming for is improved financial reporting by public companies.

Ontario continues to play a major role in the IOSCO which has grown to include more than 40 countries. The purpose of IOSCO is to enable members to exchange information with a view to developing securities markets, improving their efficiency, coordinating the enforcement of securities regulation and implementing common standards. I serve as a member of IOSCO's Technical Committee, which is the policy setting group. Paul Cherry, the Chief Accountant, chairs the accounting and auditing standards working group and Pamela Hughes from Corporate Finance is a member of the working group on reciprocal recognition of prospectuses. A great deal of progress has been made and I am hopeful of meaningful international cooperation in the years ahead.

The most important event in terms of international cooperation, was the Memorandum Of Understanding (MOU) with the SEC on cooperation in enforcement matters. It is the most far-reaching MOU yet signed between securities regulatory agencies. We are hopeful that it will lead to even greater cooperation in effective enforcement of our respective securities laws.

I am pleased again to acknowledge the continued support of your Ministry and the Deputy Minister, Bryan Davies. Our budgetary and personnel requests are invariably met with a considerate hearing. There is a recognition throughout the Commission of the Government's genuine interest and support.

Yours sincerely,



Stanley M. Beck
Chairman

THE COMMISSIONERS



Stanley Beck, Q.C., a Commissioner from 1971 to 1982, was appointed Chairman in 1985. He has had a distinguished academic career, having taught at several Canadian universities, most recently as Dean, Osgoode Hall Law School, from 1977 to 1982.



Jack Blain, Q.C., a former partner in the law firm McCarthy & McCarthy, practised corporate and securities law and lectured at the University of Toronto Law School, prior to his retirement.

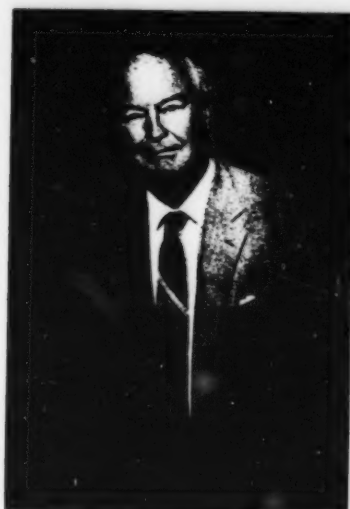
Charles Salter, Q.C. held several senior appointments with the Government of Ontario prior to his appointment as Vice-Chairman in 1984. He served as Director of the Commission from 1975 to 1984.

Malcolm Taschereau has had extensive experience in the natural resource sector. He was a vice-president and president of Dome Mines and is chairman and director of several mining and resource corporations.





Frances Carmichael, a financial analyst, has held senior corporate finance positions with ManuLife, Magna International and Canada Consulting Group.



Alfred Holland, C.A., a Commissioner since 1984, is president of Cardeco Limited, an investment holding company.



Timothy Reid is Dean and Professor, Faculty of Business at Ryerson Polytechnical Institute. Mr. Reid holds degrees in Economics from Yale and Oxford and has extensive experience with the Canadian government and the Paris-based Organization for Economic Co-operation and Development.

Paul Waitzer is a former governor of the TSE and a former chairman of the National Contingency Fund. He has also served as president and chief executive officer of a multi-branch investment firm and is president of a private investment and development company.

Seymour Wigle, F.C.A., a former partner of Price Waterhouse, Chartered Accountants, was Director, Technical Services at the time of his retirement. He is a past president of The Institute of Chartered Accountants of Ontario.



OFFICE OF THE SECRETARY TO THE COMMISSION



Julie-Luce Farrell,
Secretary

The Office of the Secretary is the entry point into the Commission for all applications, SRO by-laws to be reviewed, and public submissions as well as requests for hearings and appeals of various decisions.

The Secretary's Office received, co-ordinated and processed 871 applications (1987 - 660) to the Commission and the Executive Director, both under the SA and the CFA representing a 32 per cent increase over the preceding fiscal year. All applications made to the Commission are submitted and processed through the Secretary's Office pursuant to OSC Policy 2.1.

The total number of Notices of Hearing more than doubled to 30 (1987 - 14) and the Secretary's Office made arrangements for and assisted in the preparation and recording of over 39 hearings and public meetings (28) during the year. Appeals to the Commission by way of a hearing and review are processed through the Secretary's Office pursuant to OSC Policy 2.7.

In January, 1988, Micromedia Limited assumed responsibility for the publication of the weekly OSC Bulletin, which is co-ordinated and directed by the Secretary's Office and published under the authority of the Commission. A new format is being developed to further streamline the Bulletin and to make it more useful to readers.

Orders and Rulings issued		1988	1987		1988	1987
Securities Act						
Section	11	29	24	Regulation (Securities Act)	19	1
	14	33	21	Commodity Futures Act	6	5
	16	83	11	Ontario Business Corporations Act	10	18
	26	10	14	Statutory Powers Procedure Act	8	3
	61	57	44	National Policy No. 11	12	10
	73	165	224	National Policy No. 39	1	-
	79	103	97	National Policy No. 41	2	-
	82	47	44	TOTAL	<u>1,174</u>	<u>1,154</u>
	87	4	5			
	99/100	72	62			
	109	6	2			
	117	31	24			
	117 Director's/Commission's	418	472			
	124	15	6			
	140	37	40			
Other		<u>6</u>	<u>27</u>			
		1,116	1,117			

OFFICE OF THE LEGAL ADVISOR TO THE COMMISSION

In the fall of 1987, National Policy Statement No. 41 - Shareholder Communication - came into effect, requiring issuers and intermediaries to follow specified procedures to ensure that non-registered shareholders receive corporate information and an effective right to vote.

The process began with the Joint Regulatory Task Force on Shareholder Communication, chaired by the Legal Advisor. Extensive consultation with affected groups resulted in a comprehensive Report in July, 1987. The recommendations were largely adopted by the CSA, and culminated in the national policy.

The policy continues to be a major focus in the Office of the Legal Advisor (OLA). An Implementation and Monitoring Committee was set up to assist and monitor issuers and intermediaries during the first year. The OLA also has day-to-day responsibility for administration of the policy. Emphasis on education of issuers and intermediaries in a variety of forms is an ongoing priority.

A Joint OSC-IDA-TSE Committee was established to make recommendations with respect to "Chinese Walls" (procedures to control the flow and prevent the misuse of confidential information) within multi-service dealers. The Executive Director and the Legal Advisor sit on this committee.

The Freedom of Information and Protection of Privacy Act, 1987 was proclaimed in force as of January 1, 1988. Recommendations were made to the Government before passage of the legislation, and systems and procedures were established both within the Commission and the Ministry for dealing with requests for information under the Act.

Significant policy and regulatory initiatives during the year included:

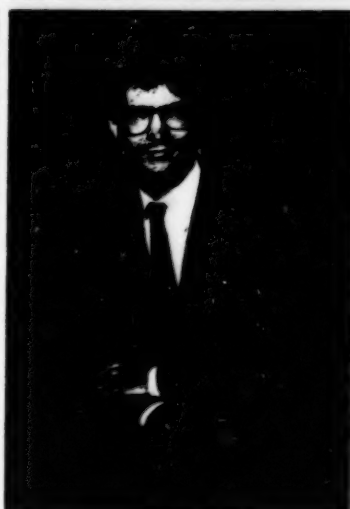
- ☐ Bill 156 - revised rules for take-over and issuer bids;
- ☐ Bill 156 - insider trading;
- ☐ Draft Code of Conduct for registrants not members of the TSE, IDA (Ontario) and the TFE;
- ☐ COATS Task Force and improvements to the system;
- ☐ National Policy Statement No. 40 on timely disclosure;
- ☐ Management discussion and analysis;
- ☐ Regulation of clearing agencies/depositories; and
- ☐ Amendments to the Securities Act with respect to the foregoing.

The Commission plays a leading role at the semi-annual meetings of the Canadian Securities Administrators (CSA) which are chaired by the Legal Advisor. The agenda is set in consultation with CSA participants, and the meetings are co-ordinated by the Office of the Legal Advisor.



Priscilla Healy,
Legal Advisor

MESSAGE FROM THE EXECUTIVE DIRECTOR



*Ermanno Pascutto,
Executive Director*

Last year I reported that the dynamic securities environment posed extraordinary regulatory challenges. Three priorities were identified and I am pleased to report significant progress in all areas.

1. An efficient and effective regulatory agency.

The Finance and Administration Branch has been restructured to incorporate a new systems group. Our computerization strategy has been approved, implementation is underway and an Acting Systems Project Manager has joined the Commission. Recruitment for the new position of Director of Administrative and Systems Services is in process and this will direct some of the administrative functions from my office.

Related to the implementation last year of new regulations on entry into and ownership of the securities industry, the OSC has established a Capital Markets Branch which incorporates the existing Registration Branch. Staff has coped admirably with the heavy workload created by the market opening, and in the face of significant staff changes. Professional staff have been hired including the Director, James D. Scarlett. The Registration Branch's long-serving Deputy Director, C. Edward Goad retired, and Mary E. Kelly, C.A. was recruited on an acting basis.

A significant reorganization of the Enforcement Branch is underway and is discussed further in the report of the Branch.

Finally, a number of important initiatives have been undertaken in support of the recruitment, development, and retention of professional and managerial human resources.

2. Establishing a fair balance among the competing constituencies in the public capital markets.

We encourage shareholders to play a greater role in protecting their own rights by, for instance, endorsing "soft dollar" arrangements to fund actions on behalf of shareholders, and a new policy regarding shareholder communication. We have undertaken projects to raise the level of retail investor awareness, including a recent OSC brochure widely distributed through libraries, educational and financial institutions as well as participation by the OSC in financial services forums. We also require special "plain language" disclosure such as the risk factor disclosure statement now required for speculative resource offerings.

We are encouraging greater self-regulation and compliance. There have been several successful prosecutions and settlements for failure of registrants to adequately supervise and the failure of reporting issuers to file financial statements and make timely disclosure. Although the positive effect of enforcement action is difficult to quantify, we note significant improvement in timely filing of financial statements in the last two years.

3. Meeting the challenges of increasingly globalized, complex, restructured and computerized securities markets.

The most significant achievement on an international level was the development of a Memorandum of Understanding with the SEC. The SEC and Canadian securities regulators have assisted each other informally for years, but the frequency of requests for assistance has increased significantly. The MOU is the most comprehensive arrangement to date on cooperation in enforcement matters between securities regulators and it establishes a model for future international agreements.

With the increasing globalization of securities markets, the OSC has become an active participant in several international organizations. The Wilton Park Group which includes participants from all of the major financial markets, deals with the practical aspects of regulatory cooperation. It provides important opportunities for bilateral contact to discuss specific enforcement issues.

A number of private sector committees have been established to deal with major issues. The COATS Task Force will consider the future of the Canadian Over-The-Counter Automated Trading System. Other issues include advertising of securities, trading by dealers in a take-over bid or issuer bid and insider trading. Proposals are expected shortly in each of these areas.

The securities arena has become more volatile, complex, technological and globalized. Staff of the Commission have risen to the challenge, and are looking ahead with anticipation. The OSC is well-positioned to direct the evolving regulatory infrastructure, and to respond adroitly and decisively to new developments in Ontario's capital markets.

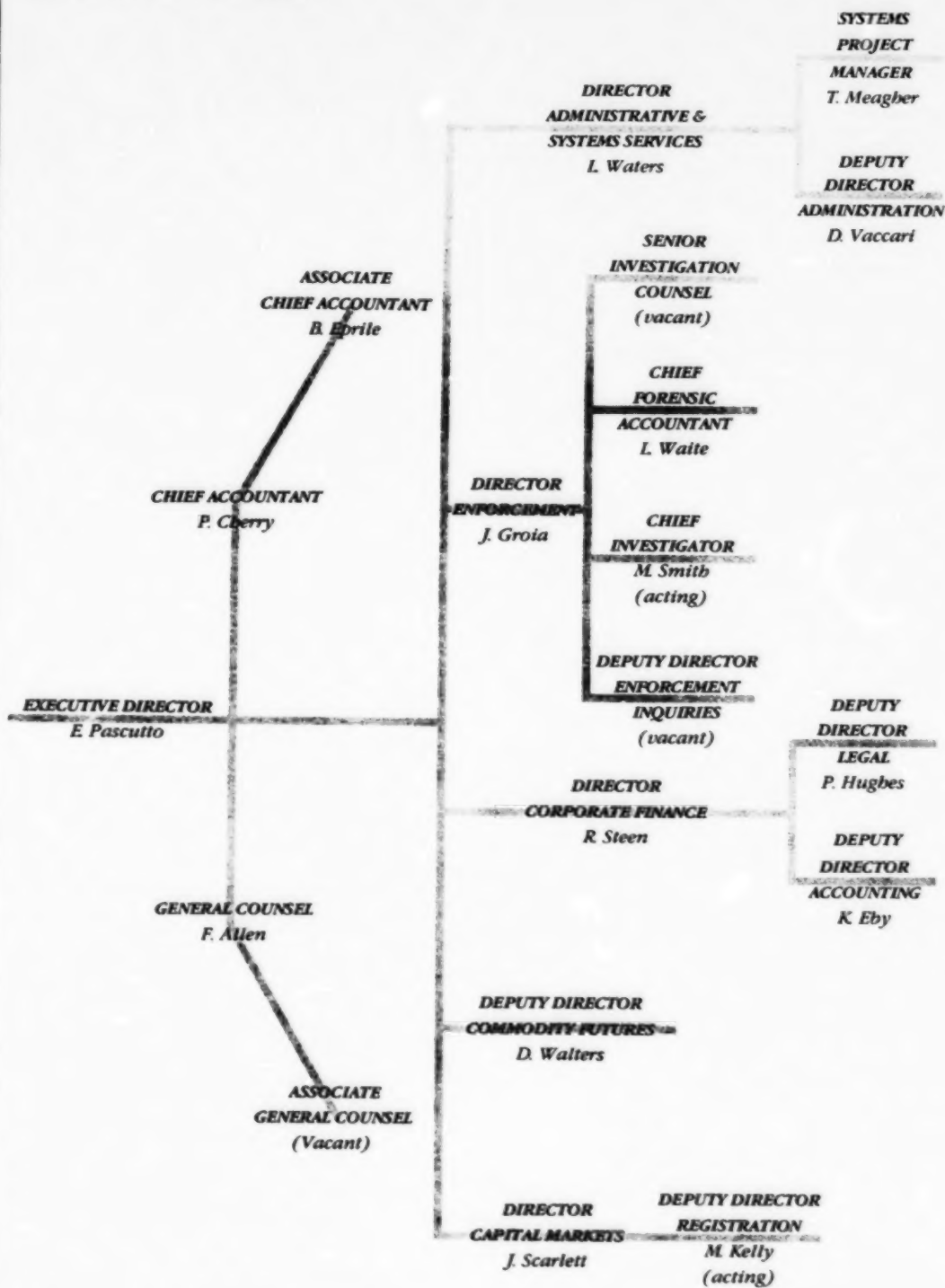


Discussing concerns with investors at the Ottawa Financial Forum, January, 1988

Ermanno Pascutto

Ermanno Pascutto
Executive Director

THE STAFF OF THE COMMISSION



OFFICE OF THE CHIEF ACCOUNTANT

Staff remain concerned about the uneven application of accounting principles as evidenced by a number of cases of poor professional judgement. A notable case in point is National Business Systems which is discussed under the Enforcement Branch. In addition to increasing our enforcement efforts on financial reporting cases, more staff resources are being allocated to assessing the quality of financial disclosure in material, particularly renewal annual information forms and annual financial statements, filed with the Commission. The results to date are disturbing and demonstrate the need for ongoing regulatory review.

OSC and SEC staff are developing proposals for a reciprocal approach for prospectuses filed by world class issuers. In addition, the Chief Accountant is participating in working parties with the International Accounting Standards Committee and the International Federation of Accountants towards the harmonization of accounting and auditing standards worldwide. If the number of alternative accounting treatments presently permitted in the international standards can be significantly reduced, those standards could be accepted by regulators, thereby eliminating the present requirement to reconcile to each country's local accounting principles.

Staff of the OSC and CVMQ are collaborating on a management discussion and analysis project, and each are expected to publish similar proposals for comment this summer with implementation targeted for January, 1989.

Staff support the CICA Guideline on Push-down Accounting which severely restricts the circumstances in which the carrying value of a corporation's net assets might be adjusted to reflect the purchase price paid by a new controlling shareholder for its control block.

Staff take the position that forecasts and projections should be permitted in prospectuses only in limited circumstances and that auditing standards should be established whereby auditors could express an opinion on the reasonableness of the assumptions used. Substantial revisions to OSC Policy 5.8, Financial Forecasts, will be published for comment this summer.

The distinction between debt and equity has also been a topic of interest this year. Certain debt instruments, such as those where the debtor has the right to force conversion into common shares, might more properly be accounted for as equity. On the other hand, certain equity securities, such as mandatory retractable preferred shares, are more akin to debt. In addition to the appropriate balance sheet classification, similar questions arise as to whether the service costs (e.g. interest, dividends) on these securities should be charged against income or directly to retained earnings. The issues are complex. The Commission has imposed a temporary moratorium on combining debt with equity on the balance sheet until a CICA research study currently in process is published.



*Paul Cherry,
Chief Accountant*

OFFICE OF THE GENERAL COUNSEL



Frank Allen,
General Counsel

Together with the Executive Director, the General Counsel is responsible for matters relating to take-over bids. New take-over bid and issuer bid rules came into effect on June 30, 1987 after five years of review and extensive consultation with legal and financial advisers in the private sector. The new rules demonstrate the benefit of private sector involvement in the development and administration of securities regulation.

The major changes introduced by the new legislation include:

- ☐ an expansion of the definition of "take-over bid" to include an acquisition of 20% or more of any class of securities;
- ☐ the private agreement exemption is restricted to purchases from five or fewer vendors at a price not in excess of 115% of the average market price;
- ☐ "early warning" disclosures are required when an investor's holdings reach 10% of any class of voting or equity securities; and
- ☐ private purchases made during the period from 90 days prior to the bid until 20 days thereafter are regulated.

Among matters before the Commission was the Selkirk/Southam case which involved applications by Southam Inc. for relief from the take-over bid rules and by staff for a cease-trade order. Neither application was granted (the Commission was equally divided and delivered three sets of reasons). The reasons of Chairman Beck and Commissioners Holland and Waitzer provide important insights for the ongoing administration of the principles and policy objectives of the Securities Act (OSCB Jan 22/88 p.285-306):

...where there [has] not been a 'demonstrated breach of the Act, the regulations or a policy statement'...the standard of 'clearly demonstrated to be abusive' may be appropriate. That is not the test that ought to be applied in every case... The concept of the 'public interest' is used in a number of sections in the Act...No one standard will be applicable in all cases and unfairness may well be a sufficient reason to invoke the concept in a particular case. Each case will depend on its own circumstances, including statutory context, particular facts, the applicant and burden of proof.

One consequence of October 19, 1987 and the precipitous decline in the value of publicly-traded securities has been a marked increase in the number of merger and acquisition transactions resulting in substantial workload increases for the Office of the General Counsel.

Staff is in the process of completing revisions to OSC Policy 9.1 and is also considering a variety of policy issues including:

- ☐ the extent and quality of disclosure relating to independent valuations provided to shareholders under OSC Policy 9.1;
- ☐ the use of the market price concept in private agreement transactions after certain public announcements or events;
- ☐ the adequacy of existing disclosure rules relating to restricted shares; and
- ☐ minority shareholder approval for certain transactions or fundamental changes involving a public company and its controlling shareholder.

THE MANDATE, POWERS AND STRUCTURE OF THE ONTARIO SECURITIES COMMISSION.

The following summary is intended to provide information and foster understanding of the strategic importance of the OSC's dual mandate: investor protection and fairness and efficiency of the capital markets in Ontario.

THE OSC MANDATE

The OSC has administrative responsibility for the Securities Act, the Commodity Futures Act and Deposit Regulations Act, as well as certain provisions of the Ontario Business Corporations Act. The bulk of day-to-day operations centre around the administration and enforcement of the Securities and Commodity Futures Acts. There are three principal activities involved in securities regulation in Ontario and in most other jurisdictions with developed capital markets.

1. Registration of persons trading in securities and commodity futures contracts.

The OSC requires competency and integrity of registrants. In the case of firms, it is concerned with financial stability and ade-

quate supervision of individuals.

2. Reviewing and clearing of prospectuses.

As a general rule, no person may sell new securities to the public unless a prospectus, containing full, true and plain disclosure, is filed with the Commission and provided to the purchaser.

3. Enforcement of the Securities Act and Commodity Futures Act.

Staff investigate suspected violations of the legislation and in appropriate cases, recommend either administrative proceedings before the Commission or prosecution under both Acts. Staff also supervise the filing of financial statements, insider trading reports and other material.

CHALLENGES FACING THE OSC

The mandate demands interaction and consultation with public and private sector organizations at provincial, national and international levels and operation within a dynamic securities



environment where the pace of change and advancement of technology is dramatic. The Commission is expected to deliver services within a reasonable budget despite these mounting pressures.

Many specific factors impact the OSC's ability to fulfill its mandate: the increasing complexity of the capital markets and new financial instruments; the growing volume of filings; the opening of the markets to foreign securities firms and domestic financial institutions; the internationalization of markets with global trading of securities; and the emergence of financial service conglomerates. There is also increasing public concern about the regulation of financial institutions and public companies. Financial market scandals, both in Canada and abroad, create demand for greater accountability.

THE COMMISSION AND ITS POWERS

The Commission has the power, among other things, to:

- ☐ investigate;

- ☐ suspend, cancel or impose terms on registration, or reprimand;
- ☐ grant or deny exemptions from provisions concerning prospectuses, registration, takeover bids or issuer bids;
- ☐ cease trade any security;
- ☐ order funds be frozen or apply for court-appointed receivers;
- ☐ order audits of registrants, reporting issuers, mutual fund custodians and the clearing houses of commodity futures exchanges;
- ☐ regulate stock exchanges and commodity futures exchanges;
- ☐ grant relief from the financial reporting requirements; and
- ☐ grant relief from proxy solicitation and insider trading requirements.

The OSC is empowered to recognize associations or organizations representing registrants as SROs. The OSC has recognized the TSE, the TFE, and the Ontario District Council of the IDA, delegating to them both the authority and the responsibility to monitor and regulate their members. The OSC retains the power to review their decisions. SROs impose financial and trading rules on their members which are enforced through independent audit and compliance checks.

THE STRUCTURE OF THE COMMISSION

The OSC is a Schedule I regulatory agency of the Ontario government. The Chairman of the Commission reports to the Minister of Financial Institutions who answers for the OSC in the Legislature and presents OSC financial estimates as part of the Ministry's estimates.

THE COMMISSION

The OSC is a two-tiered organization. The first tier is an autonomous statutory tribunal - the Commission - appointed by Order-in-Council and comprised of a Chairman and Vice-Chairman who serve full time, a second Vice-Chairman and up to eight other Commissioners serving on a part time basis. Commissioners are

drawn from various fields related to the securities and commodity futures industries, including lawyers, accountants, securities dealers, and investors. The Chairman has ultimate responsibility for the OSC. The Commission formulates policy, sits as an administrative tribunal in hearings, acts as an appeal body from decisions made by the Executive Director and staff, hears appeals from decisions of the TSE and makes recommendations to the government for changes in legislation. Two members constitute a quorum. The Commission meets weekly, as well as convening as a full body or in panels for hearings or public policy meetings when required. Staff support is provided by the Offices of the Secretary and the Legal Advisor.

The Office of the Secretary also receives and co-ordinates the processing of all applications pursuant to OSC Policy 2.1. When staff are opposed to an application, the applicant is entitled to a hearing before either the Executive Director or the Commission pursuant to OSC Policy 2.7. Decisions take effect immediately, although the Commission may grant a stay. The following summarizes the right of appeal:

From	To
Staff	Executive Director
Staff, including Executive Director	Commission (in most instances)
TFE	Commission
TSE	Commission
Commission (except rulings under s.73 SA and s.38 CFA)	Divisional Court

The Office of the Legal Advisor performs functions such as research, policy formulation, legislative drafting, private sector liaison, special projects work and general legal advice. This office is responsible for legislation and regulations recommended to the Minister by the Commission. It co-ordinates with other divisions of the MFI and the CSA - an association comprised of securities administrators of each of the provinces in Canada which seeks, wherever possible, national uniformity in legislation and policies.



THE STAFF OF THE COMMISSION

The second tier of the Commission is an administrative agency composed of approximately 150 lawyers, accountants, investigators and support staff serving the day-to-day operations of the Commission. The Executive Director is responsible for staff and for the activities of the five operating branches - Corporate Finance, Capital Markets, Enforcement, Commodity Futures and Administrative and Systems Services - and the Offices of the Chief Accountant and the General Counsel. The Executive Director also participates actively in policy development.

The Chief Accountant is responsible for the formulation of financial reporting policy and the resolution of questions on the interpretation and application of accounting principles and auditing standards. This office monitors the accounting and auditing standards-setting functions of the CICA and provides input on emerging issues and commentary on proposed standards.

The Office of the General Counsel is responsible for all legal matters at the staff level

and provides consultation to staff lawyers in regard to interpretation of all legislation, regulation and policies administered by the Commission. The General Counsel assumes responsibility for applications to the Executive Director for waivers of the valuation requirement pursuant to OSC Policy 9.1, applications for exemption from take-over bid rules, and participates in policy initiatives generated by staff. The Office of the General Counsel is involved in hearings relating to take-over bids and other securities law issues.

The Corporate Finance Branch reviews prospectuses to ensure that the information disseminated appears complete and that the offering appears to be not contrary to the public interest. The fact that the OSC accepts a prospectus does not mean that the OSC has assessed the merits of the investment, nor does it guarantee the completeness or accuracy of the prospectus. The responsibility for providing full, true and plain disclosure rests with the issuer and underwriter. Policy development remains an important aspect of the work of the Branch.

The Capital Markets Branch expands the Commission's resources to pursue regulatory initiatives, and to identify and respond to developments in the evolving marketplace. The Branch encompasses the former Registration Branch and has identified its immediate priority to be the implementation of the universal registration system. The Registration Section is responsible for the initial and ongoing registration of companies and individuals carrying on securities activities as dealers, advisers or underwriters in Ontario.

Activities of the Enforcement Branch, the largest in the Commission, include surveillance of trading in securities, handling of complaints concerning securities matters, and the administration of COATS. The Investigation and Enforcement Section carries out investigations into possible violations of statutes administered by the Commission. Such violations of securities legislation may be recommended for administrative proceedings before the Commission or quasi-criminal prosecutions pursuant to the SA and CFA. The Market Surveillance Section of the

Branch is responsible for the administration of COATS and the surveillance of the trading of shares of reporting issuers. COATS is the electronic quotation and trade reporting system developed for companies whose shares are not listed on a Canadian stock exchange.

The Commodity Futures Branch administers the CFA and Regulations. The Branch exercises regulatory oversight of the TFE and, in so doing, reviews the by-laws of the TFE. The Branch also advises with respect to other derivative instruments including options. All registered futures commission merchants must be members of the TFE and are subject to its by-laws.

The newly-formed Administrative and Systems Services Branch includes the project team which is responsible for implementation of a major computerization strategy. This initiative represents a significant commitment of resources to strengthen the regulatory process in a highly complex, computerized industry. The Branch provides administrative and systems expertise to meet expanding responsibilities and expectations. The continuous disclosure and insider trading functions are also part of this Branch.

The following acronyms are intended to make the insert more readable:

CFA	Commodity Futures Act
CICA	Canadian Institute of Chartered Accountants
COATS	Canadian Over-The-Counter Automated Trading System
CSA	Canadian Securities Administrators
IDA	Investment Dealers Association
MFI	Ministry of Financial Institutions
OSC	Ontario Securities Commission
SA	Securities Act
SRO	Self-regulatory Organization
TFE	Toronto Futures Exchange
TSE	Toronto Stock Exchange

C O R P O R A T E F I N A N C E B R A N C H

It was a challenging year caused by extreme conditions in the capital markets and staff of the Branch coped well despite an unprecedented number of offering documents coupled with simultaneous staff shortages during the first six months.

The second half of the year following the October market break was characterized by the evaporation of offerings under review, particularly equity, and the restructuring or amending of transactions in the hope that they could be salvaged. However, the overall decrease in the number of prospectuses and the value of the securities offered were both less than ten percent. In the aftermath of October 19, a number of professional staff were seconded to other Branches, particularly Enforcement, in response to staffing needs.

From a policy development perspective, staff worked closely with the Office of the General Counsel in the preparation, review and finalization of a new Junior Resource Policy, OSC Policy 5.2, which provides an extensive new securities regime for these issuers.

Another major project involved working with the Securities Advisory Committee and representatives of the CSA in the preparation of an omnibus policy governing prospectuses and operations of conventional mutual funds. The resulting National Policy Statement No. 39 is currently undergoing further amendments in response to the concerns of the mutual fund industry and dealer community.

In cooperation with the Chief Accountant, and following meetings with other provincial securities regulators and the CICA, amendments to OSC Policy 5.8 Financial Forecasts are being developed for exposure in the near future. It is expected that in the future, forecasts in prospectuses and the underlying assumptions will be subject to an audit standard review.

The Branch has been involved on several fronts regarding international securities offerings. Meetings are ongoing with the SEC to develop a system of reciprocal prospectus acceptance for certain types of offerings. In addition, as noted by the Chairman, the Branch is participating in the technical committee work being carried on by IOSCO. Also, the TSE has approached the Commission regarding the development of a policy relating to the acceptability of foreign offerings with certain specific variations from domestic filings. Branch personnel are assisting the Chief Accountant in this initiative.



*Robert Steen,
Director*

Equity offerings comprised 72% of total prospectus offerings (1987 - 82%) and short form prospectus offerings accounted for 21% of the value of all prospectus equity offerings and 40% of all debt offerings. At the present time 154 issuers filing current Annual Information Forms are eligible to access the Prompt Offering Qualification System for senior issuers.

The Branch reviewed 669 prospectuses (629), 141 rights offerings (51), 18 Exchange Offering Prospectuses (13), and 80 short form prospectuses (111).

During the year 330 applications for exemption from the Act (334) were reviewed. As well, 317 applications for transfer within, or release from escrow were considered.

Prospectus Filings Accepted and Value of Offerings

Years Ended	March 31			
	1988		1987	
	No.	(\$MILL.)	No.	(\$MILL.)
Bank	4	436	8	1,086
Industrial	173	11,657	286	14,623
Mutual Fund	232	N/A	213	N/A
Natural Resource				
Junior Mining	80	92	44	103
Mining - Other	44	1,474	25	862
Junior Oil & Gas	14	53	4	1
Oil & Gas - Other	30	938	15	451
Real Estate Program	13	448	16	337
Small Business				
Dev. Corp.	1	1	5	34
Trust Company	4	354	7	655
Miscellaneous	32	1,844	39	854
	<u>627</u>	<u>17,297</u>	<u>662</u>	<u>19,006</u>
% Change	-5	-9		

Table does not include Exchange Offering Prospectuses

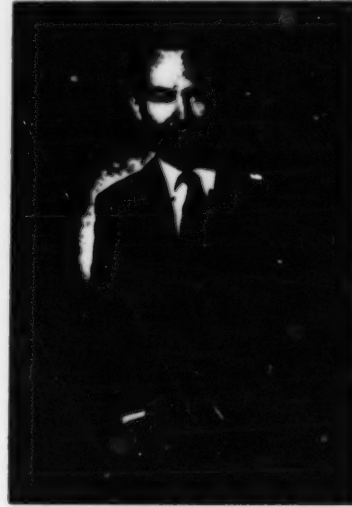
CAPITAL MARKETS BRANCH

Events in the past few years in the Canadian and international capital markets have resulted in rapid and significant changes in the nature of the securities industry. Important developments have included the removal of restrictions on the ownership of dealers and advisers registered in Ontario, breaking down the traditional four pillars (banks, trust companies, insurance companies and securities dealers) of the Canadian financial industry, and globalization of capital markets.

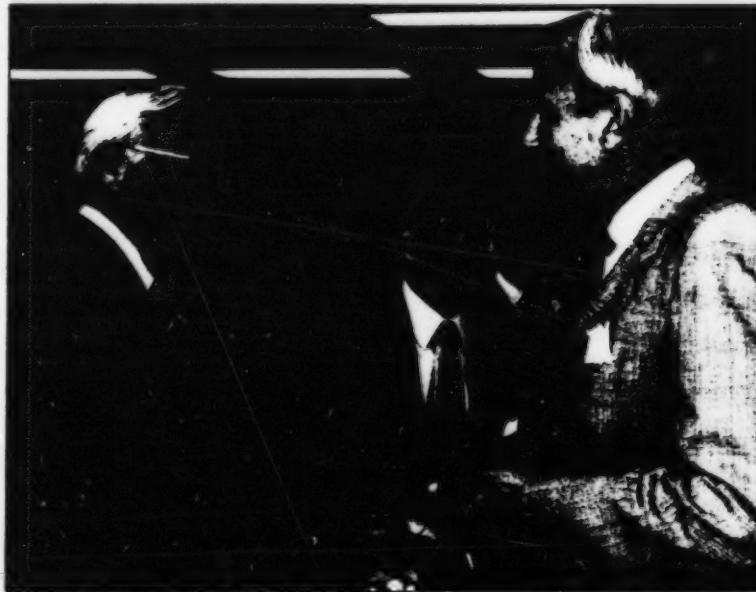
The Branch has been formed to expand the capacity of the Commission to pursue regulatory initiatives in the capital markets area and to identify and respond to emerging trends and issues in the changing marketplace. The Branch's mandate includes:

- ☐ implementation of the amendments to the Regulation under the SA which came into force on June 30, 1987 pertaining to universal registration of market intermediaries, restrictions on ownership of registrants and conflicts of interest;
- ☐ supervision of SROs such as the IDA (Ontario) and the TSE;
- ☐ oversight of regulation of the mutual fund industry;
- ☐ review of applications under securities legislation dealing with registration, conflicts of interest and networking issues; and
- ☐ anticipation and review of emerging trends and issues in the capital markets and recommendation to the Commission of appropriate regulatory and policy responses to such changes.

The immediate priority of the Branch is the implementation of the universal registration system. Significant progress has been made in the area of mutual fund distribution by financial institutions and this initiative is continuing both in Ontario and the other provinces. With the signing of the Memorandum of Understanding with the OSFI earlier this year, the path is now clear to develop an appropriate regulatory structure for financial institutions. This initiative will require consultation with industry members and primary regulators in the affected sectors of the financial



*James Scarlett,
Director*



*Commissioner Blain congratulates Premier Peterson on his announcement,
June 30, 1987.*

industry. Lastly, the system of conditional registration of limited market dealers is scheduled to end on December 31, 1988. To enable applicants in this category to satisfy their registration requirements by that date, it is essential that appropriate requirements in this area be settled and communicated to market participants as soon as possible.

In addition to the Director, the Branch is currently staffed by three solicitors and a policy analyst. As well, the Registration Section reports to the Director.

Registration Section

The changing nature of the securities industry has also had a significant impact on the Registration Section. With the changes in Canada's securities industry referred to earlier, and the advent of universal registration in Ontario, the workload and pace of change in the Registration Section has increased dramatically.

In carrying out its responsibilities the Section is particularly concerned with ensuring that all registrants in Ontario meet appropriate standards of character, competence and financial soundness and that all applications for registration (and renewals of or amendments to an existing registration) are dealt with fairly, consistently and in an expeditious manner.

To assist in achieving these goals in the face of an increased workload, the Section will become fully automated in the next twelve months. Comparative registration statistics (including registrations resulting from the distribution of mutual fund securities by financial institutions) for the past two years are set out in the adjacent table.

Years Ended	March 31		% Change
	1988	1987	
Dealers (all categories)	550	374	47%
Advisers	169	157	8%
Salespersons (all categories)	13600	7629	78%
Officers and Directors	4250	3824	11%
Branch Offices	2570	400	543%

ENFORCEMENT BRANCH

As noted in the message from the Executive Director, a thorough review of the Enforcement Branch was undertaken in the past year resulting in a recommendation for restructuring. Measures are now being implemented to provide greater flexibility, efficiency and effectiveness. Several areas have been spun off to other Branches to permit Enforcement personnel to focus on their primary mandate enforcement:

- (i) take-over bids and issues will be handled by the General Counsel's office;
- (ii) a new Compliance Section will be established within the Office of the Chief Accountant;
- (iii) the Financial Disclosure Section has been moved to the Administrative and Systems Services Branch; and
- (iv) the operation of COATS, which is currently under review by the COATS Task Force, will eventually be privatized.

The reorganized Enforcement Branch will consist of three distinct sections: the existing Market Surveillance Section, an Enforcement Enquiries Section, which will handle all complaints and inquiries, and an Investigation and Enforcement Section which will be comprised of the lawyers, accountants and investigators and will be responsible for investigation and prosecution of major cases.

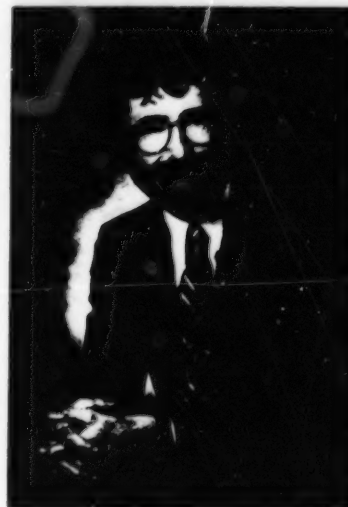
Investigation and Enforcement Section

Staff undertook approximately 90 formal and informal investigations and important new ground was charted in several instances.

Two cases involved a failure to comply with the continuous disclosure requirements which ensure that appropriate information regarding ongoing activities of reporting issuers is available to the public. Convictions were obtained respecting Odyssey Industries Incorporated, Regal Goldfields Limited, Delta North Transportation Limited and Danvers Resource Explorations Limited for failing to file financial statements on a timely basis. For the first time, a reporting issuer, Oakwood Petroleums, was successfully prosecuted for failure to file a press release immediately after a material change in its affairs.

A number of cases dealt with more familiar areas such as trading in securities without proper registration and a prospectus. The Commission obtained its largest single count fine under the SA respecting GLF Investments for trading without registration. Similarly, prosecutions were obtained respecting non-registrants selling securities in northern Ontario.

As noted in the 1987 annual report, Royal Mexdon Holdings Inc. had been placed in receivership. Royal Mexdon was said to be engaging in the purchase of gold and silver contracts through Hong Kong dealers on the London Loco Spot Market. Enquiries by Commission staff indicated that contracts may never have been entered into or executed. It appears that the principals of Mexdon, who have left the jurisdiction for the U.S., may have engaged in a fraudulent operation. The Commis-



*Joseph Grola,
Director*

sion referred the case to the RCMP and notified the U.S. Commodity Futures Trading Commission. Only one Canadian resident appears to have been involved with the operation and he pleaded guilty to trading in securities without registration.

Regarding sales of securities without a prospectus, several tax-oriented operations originating in Western Canada were cease traded by the Commission. A permanent cease trade order was issued against West Coast Dart Digest Ltd. which sold licences for the sale and distribution of a tourist and leisure guide, and against Argon Financial Consultants Inc. which solicited sales of licences for the distribution of a board game called Enhancement.

An investigation of the affairs of Osler Inc. was undertaken upon receipt of information from the TSE. Application was made to the Supreme Court for the appointment of a receiver under the SA. Subsequently, the court further ordered the personal receiverships on an interim basis of certain principals of Osler.

An investigation of National Business Systems Inc. resulted in the withdrawal of the company's financial statements for the year ended September 30, 1987. Revised financial statements were required because of "misrepresentations, new information which either was not available or was withheld at the time of the audit of the Original 1987 Statements and matters for which the original accounting was inappropriate". The shareholders equity in the revised financials was \$22 million, a reduction of \$56 million from the original figure of \$78 million reported to shareholders.

The Commission issued cease trade orders against Crownbridge Industries Inc. and Consolidated Grandview Inc. because of unusual activity in the market, the use of company funds for inappropriate purposes, and the alleged violations of various statutory requirements. The cease trade orders were rescinded against Crownbridge Industries Inc. after the election of new directors and the release of new disclosure documents. The cease trade order remains in effect against Consolidated Grandview Inc.

The Commission also issued a cease trade order against Comaplex Resources International Ltd.



because of allegations that a large percentage of the issued and outstanding shares of Comaplex had been accumulated by a Swiss bank and a Liberian company in contravention of the take-over bid provisions of the SA. This cease trade order remains in effect.

In addition, an investigation was conducted concerning the failure of Richardson Greenshields to establish the suitability of clients requesting trading in certain securities. This matter is discussed further in the report of the Commodity Futures Branch.

Market Surveillance Section

The following discussion of volumes and values is based on calendar year statistics.

COATS began operation in April 1986. The average daily volume in 1987 was 1,752,520 shares as compared with 1,390,307 shares in the nine months of 1986. The average daily value was \$7,322,424 in 1987 as against \$6,961,234 the previous year. There were 40 brokerage firms quoting 346 stocks in COATS, up from 37 firms and 296 quoted stocks.

During the year ending March 31, 1988, surveillance of the trading of the shares of the reporting issuers resulted in the detection of 43 instances of unusual trading patterns (1987 - 37) of which 26 required further investigation (17).

	1988	1987
Complaints Referred to SROs	93	100
Hearings		
☐ Director	8	2
☐ Commission	19	11
Investigations		
☐ Formal	17	17
☐ Informal	72	67
Prosecutions/Appeals		
(Informations Sworn)		
☐ Criminal Code	2	8
☐ Securities Act	14	7
Convictions		
(Number of charges successfully prosecuted)		
☐ By count	108	11

Signing of the historic Memorandum of Understanding with SEC, CVMQ and BCSC, January, 1988



COMMODITY FUTURES BRANCH



David Walters,
Deputy Director

In addition to carrying out its ongoing administrative and program delivery responsibilities, Branch staff worked closely with other areas of the Commission - notably, the Registration and Enforcement Branches.

Staff played a major role in several significant Enforcement cases. One such case involved Richardson Greenshields of Canada and the failure of Richardson to exercise its statutory responsibilities for establishing the true identity, creditworthiness, reputation and continued suitability for trading contracts on U.S. exchanges on behalf of its client, Veritas Commodity Futures International Inc. Veritas had received funds and orders from its West German affiliate on behalf of West German and Swiss nationals. In order to trade in this manner Veritas should have been registered as a futures commission merchant and Richardson should have known of this requirement.

The settlement, including a reprimand to and the disgorgement by Richardson of all of the trading commissions earned by it respecting Veritas, totalled \$196,000 U.S. and was paid to the Treasurer of Ontario. This signalled the Commission's intention to enforce the regulatory requirements that place a heavy responsibility upon all futures commission merchants to ensure the continuing integrity of Ontario's commodity futures industry.

Significant policy initiatives centred on proposed amendments to the Bankruptcy Act, an examination of the use of commodity futures contracts, options and short sales by mutual funds in Canada, and amendments to the disclosure statement for Recognized Market Options and the amalgamation of Forms 14 and 15 under the CFA.

Staff of the Branch reviewed and processed 12 applications for rulings (1987 - 5), 21 TFE, TSE and TCO by-law rule initiatives and amendments (13), and 3 submissions (5) relating to new or amended options. The number of firms registered as futures commission merchants remained unchanged at 24; one additional adviser was registered bringing the total to 11.

**ADVISORY BOARDS
AND SECURITIES ADVISORY COMMITTEE**

Commodity Futures Advisory Board (CFAB)

The CFAB serves in an advisory capacity to the Commission and is regularly consulted by the Commodity Futures Branch when issues arise. The CFAB is comprised of leading industry specialists in the area of commodity futures contracts, commodity futures options and other derivative instruments.

Peter C. Cavelti (CFAB Chairman)	President, Cavelti Capital Management Ltd.	James G. Laishley	Vice-President, Refco Futures (Canada) Ltd.
Kenneth B. Foxcroft	Senior Vice-President - Treasury Treasury & Investment Banking Div. The Toronto-Dominion Bank	Howard M. McLean	Vice-President Foreign Exchange Risk Management McLeod Young Weir Limited
		Harry G. Simpson	Retired Partner Price Waterhouse

Financial Disclosure Advisory Board (FDAB)

The FDAB consults with and advises the Commission and staff on financial disclosure matters. Members are appointed by Order-in-Council and have traditionally comprised three public accountants, a financial analyst and a representative from industry.

David L. Knight, FCA (FDAB Chairman)	Partner Peat Marwick, Toronto	William R. Sloan, FCA	Partner, Arthur Andersen, Ottawa
C. Ross Healy	Vice-President and Director M.K. Wong Management Ltd.	Derek W. Williams, CA	Partner, Coopers & Lybrand, Toronto
Graham R. McLellan, FCA	Retired Controller, Imperial Oil Limited		

Securities Advisory Committee (SAC)

Created by OSC Policy 1.7, the SAC serves in an advisory capacity liaising through the Office of the Legal Advisor to the Commission and staff. At the request of the Commission, the Committee will review and comment on proposed amendments to the SA and Regulations, and on Policy Statements. The Committee will review other matters at the request of the Commission and report to the Commission annually respecting issues the Committee considers should be addressed by the Commission.

The Committee consists of nine Ontario securities lawyers appointed by the Commission:

Rene Sorell	Committee Chairman, McCarthy & McCarthy	Jean Fraser	Blake, Cassels & Graydon
William Ainley	Davies, Ward & Beck	George Glover	Fasken & Calvin
Steven Coxford	Smith, Lyons, Torrance, Stevenson & Mayer	William Orr	Fraser & Beatty
Marlene Davidge	Tory, Tory, DesLauriers & Binnington	Glorianne Stromberg	Cassels Brock & Blackwell
		Andrew Tulk	Blaney, McMurtry, Stapells

ADMINISTRATIVE AND SYSTEMS SERVICES BRANCH

Responding to significant changes within the Commission, a comprehensive review of administration was conducted and resulted in the restructuring of the Branch. The department was renamed and an executive level position accountable to the Executive Director was created - Director, Administrative and Systems Services.

This position was created as a result of the importance attached to the implementation of a major computerization strategy (entities regulated by the OSC are among the most sophisticated users of technology) and the need for sophisticated administrative expertise to meet ever-increasing responsibilities and expectations.

A Project Team is responsible for the implementation of the OSC information technology strategy including development, conversion and implementation of a new computer system. A newly created Information Systems Services Group (ISSG) will assume responsibility for the ongoing maintenance of software and databases, and provision of computer systems support. Both groups will report to the Director.

FISCAL YEAR ENDING MARCH 31	1989 Estimates	1988 Actual	1988 Estimates	1987 Actual	1987 Estimates
Budget allocation established by Management Board of Cabinet		<u>\$8,010,700</u>		<u>\$6,149,600</u>	
Expenditures					
Salaries and wages	\$5,910,700	\$5,089,056	\$4,991,500	\$4,443,751	\$3,886,500
Employee Benefits	944,500	653,731	833,900	650,662	635,000
Transportation and Communications	375,100	311,641	375,100	265,326	275,000
Services (Note 1)	1,936,400	1,881,678	1,004,500	831,368	667,400
Supplies and Equipment	<u>1,789,900</u>	<u>420,788</u>	<u>224,300</u>	<u>200,608</u>	<u>98,300</u>
Total (Note 2)	<u>\$10,956,600</u>	<u>\$8,356,894</u>	<u>\$7,429,300</u>	<u>\$6,391,715</u>	<u>\$5,563,100</u>
Expenditures over budget		\$ 346,194		\$ 242,115	

NOTES TO STATEMENTS OF EXPENDITURES AND REVENUES

Note 1 The \$1,050,310 increase in actual expenditures on services from 1987 to 1988 (actuals) primarily results from:

- ☐ investigations requiring specialized services and resources;
- ☐ industry deregulation and the requirement for special resources; and

☐ a major technology planning study.

Note 2 The significant increase in the 1989 estimated expenditures over 1988 actual expenditures reflects:

- ☐ approved funding for the implementation of the first phase of the Information Technology Strategic Plan; and

☐ the reorganization of the Commission, and reclassification of senior management and professional staff.

Note 3 All revenues are remitted to the Consolidated Revenue Fund of the Province of Ontario and are not retained by, or credited back to, the OSC. Effective July 1, 1986 fees

Internally, a review of administrative functions within the Commission resulted in the transfer of the Continuous Disclosure/Insider Trading functions and staff from the Enforcement Branch.

During the past year, the Commission entered into a non-exclusive licence with Q.L. Systems Ltd. to create, operate and maintain three computerized databases containing certain Commission material. Decisions Database will include notices, decisions, orders, rulings, reasons, and cease trade orders. Commentary Database includes draft policies, requests for comments and responses. Regulatory Database includes the Acts and Regulations, OSC, National, and Uniform Act policies as well as blanket rulings.

In looking to the future, the Branch anticipates a significant increase in activity, with the automation of the Commission topping the agenda. Staff will be fully supported with user education and training for maximum efficiency of staff resources and effective use of the system.

Comparative statements of revenues and expenditures (with estimates) are set out below.

	1989/ Estimates	1988 Actual	1988 Estimates	1987 Actual	1987 Estimates
Revenues to the Province Generated by OSC Services (Note 3)					
Registration - Brokers & Salesmen (Note 4)		\$ 7,292,273		\$2,978,078	
Corporate Finance - Prospectus filings		4,501,457		4,502,959	
Rulings		236,171		171,732	
Disclosure - Filing, etc., fees		2,069,494		1,125,048	
Miscellaneous		<u>10,621</u>		<u>17,089</u>	
Total		<u>\$12,903,900</u>	<u>\$14,110,016</u>	<u>\$8,794,906</u>	<u>\$4,700,000</u>

charged by the Commission were increased significantly.

Fees under the Commodity Futures Act are collected and processed through the Registration Section and cannot be readily segregated. It is estimated that fees under the Commodity Futures Act aggregate \$240,000.

Note 4 The increase in registration revenues results primarily from:

- ☐ increased capital fees introduced in July, 1986 which represent a percentage of industry total regulatory capital;
- ☐ registration of securities dealer and mutual fund dealer subsidiar-

ies of financial institutions (totalling \$1.43 million); and

- ☐ new registrants in the categories of limited market dealer, foreign dealer, and international dealer (totalling \$.74 million).

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Charles Salter, Vice-Chairman 593-8204

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Escrows and Gina Sugden 593-8238

Mutual Funds

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COATS Ursel Callender 593-8342

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Maureen O'Dowd 593-8171

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